



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

**STATEMENT OF  
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ASSISTANT ADMINISTRATOR FOR  
ADMINISTRATION AND RESOURCES MANAGEMENT  
U.S. ENVIRONMENTAL PROTECTION AGENCY  
BEFORE THE  
SUBCOMMITTEE ON OVERSIGHT, INVESTIGATIONS,  
AND EMERGENCY MANAGEMENT  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
U.S. HOUSE OF REPRESENTATIVES**

**NOVEMBER 4, 1999**

**Madam Chairman and Members of the Subcommittee:**

I am Romulo L. Diaz, Jr., Assistant Administrator for Administration and Resources Management at the Environmental Protection Agency (EPA). Let me begin by thanking you for the opportunity to appear before the Subcommittee to discuss the actions EPA has taken to improve the management and oversight of assistance agreements (hereinafter referred to as grants) and to ensure that taxpayer dollars are spent wisely.

At my confirmation hearing in July 1998, I committed to focusing my attention on improving the management of programs administered by my office. In order to institutionalize management excellence, my office has implemented a detailed management plan, *Managing for Environmental Results*, which I have already provided to the Subcommittee staff. This plan contains clear priorities, measurable goals, and milestones for their accomplishment. I hold myself and my senior staff accountable for achieving the results we have pledged to attain. The management and oversight of EPA's grants program, which averages about \$3.7

billion annually, is a major component of the business services the Office of Administration and Resources Management (OARM) provides to the Agency.

In 1995, the Inspector General (IG) issued a report that highlighted two systemic weaknesses in the management of EPA's assistance programs: post-award management of grants by Grants Management Officers and Project Officers and the backlog of grant closeouts.

In response to the IG report, EPA declared both management and oversight of grants and their closeouts as material weaknesses and has worked diligently to correct these deficiencies. I would like to report on the actions we have taken and the progress we have made to assure you and the American public that we are using taxpayer dollars wisely.

EPA grants are a fundamental tool for enhancing public health and protecting the environment. Of the approximately \$3.7 billion awarded as assistance by EPA each year, 89 percent goes to State, local and tribal governments. Of the remaining 11 percent, approximately five percent each goes to educational institutions and to non-profit organizations and about one percent goes to individuals, foreign recipients, and profit-making organizations combined. Of the 11 percent awarded to non-governmental grantees, about half are awarded on a competitive basis.

#### **Improvements in Grants Management**

EPA has moved aggressively to make improvements in the management of its assistance programs. In FY 1997, EPA had a backlog of almost 20,000 non-construction grants awaiting closeout. As of the end of September 1999, we had reduced this backlog by 97% and we are on target to completely eliminate the backlog by July 2000, the date promised to the Congress. In

addition to the emphasis on closeouts, EPA has put in place significant systemic improvements in the areas of pre-award and post-award grants management.

### **Pre-Award Management**

The pre-award phase of grant making is important to the successful implementation of the entire process. It requires the clear delineation of the roles and responsibilities of three offices -- grants management, program, and finance offices.

EPA has implemented the following major improvements to make the pre-award process work more efficiently and effectively.

***Project Officer Training.*** EPA developed a training and certification program for Project Officers, which includes guidance on pre-award practices and procedures, as well as the Project Officer's role in post-award management. Project Officers are responsible for managing the technical and programmatic aspects of a grant program. Approximately 4,400 Project Officers have been trained to date. In addition, during FY 1999, five one-day refresher courses for Project Officers were offered.

***Grantee Compliance Assistance Initiative.*** This initiative, begun in 1998 by Grants Management Offices, is a pro-active approach to helping prospective applicants gain a better understanding of their responsibilities, emphasizing Federal law and regulations on program purposes, allowable costs, budgeting, reporting, and record keeping. During FY 1999, nearly 700 prospective grant applicants participated in pre-award technical workshops, some of which included telephone hook-ups to reach a larger audience. To make this tool more widely available, some programs have begun to include information about the availability of these workshops in their Requests for Application (RFA) notices. In the future, more RFAs are

expected to contain such information, especially those for new or unique programs. This initiative will help to improve post-award oversight by promoting better understanding of grant management requirements up front.

### **Post-Award Management**

The Agency has also taken major steps to improve post-award management and oversight of assistance agreements. Here again, grants, program, and financial management offices at Headquarters and in the Regions must work together closely. To accomplish this, EPA issued its "Policy, Procedures and Guidelines for the Post-Award Management of Grants and Cooperative Agreements by Grants Management Offices," in May 1998, and, "EPA Policy for Post-Award Management of Grants and Cooperative Agreements by Headquarters and Regional Offices," in April 1999.

Both documents detail the requirements for the review and evaluation of grantee programmatic performance and compliance with regulations, policies, and the negotiated scope of work. In addition, they offer guidance on monitoring techniques and recommend criteria for identifying recipients who should receive an on-site visit or referral to the IG for a formal audit. We also look for opportunities to provide on-site technical assistance.

All Headquarters and Regional Offices develop monitoring plans to identify the oversight activities that will be performed and the timetable for their completion. Updated plans that include accomplishments and needed program improvements are due to my office by the end of this year. Complementary management reviews are also conducted by Senior Resource Officials in each program and Region. These Management Effectiveness Reviews, referred to as MERs, are designed to assure that all offices are managing assistance agreements properly and to

determine any potential vulnerabilities. The 1997 MER pointed out several areas that required improvement, prompting EPA to prepare three guidance documents: a memorandum reminding Senior Resource Officials about the requirement to include documentation that a grant award, as distinct from a contract, is the appropriate funding mechanism; a fact sheet that details the implications of inadequate documentation and examples of proper documentation; and a proposed "Cost Review Policy" to provide guidance for Program and Grants Management Offices on cost review analysis and reporting.

A follow-up Management Effectiveness Review will be completed by Senior Resource Officials by the end of this year, which will report on the corrective actions taken to address the 1997 review findings. MERs will assist the Agency in improving grants management and oversight by ensuring that the necessary controls are in place to comply with the Federal Managers Financial Integrity Act.

In addition to these program office efforts to improve their own post-award management, my staff conducts detailed assessments of grant management operations. These are designed to determine whether there is consistency in the application of Agency policies, directives, and guidance documents, and government-wide rules and regulations. These Management Oversight Reviews (MORs) examine grant files, operational procedures, communications strategies, and analyses of pre-award budgets. MORs are conducted at each Regional and Headquarters Grants Management Office on a three-year cycle.

### **Grant Closeout Issues and Actions**

As I mentioned, EPA has made dramatic progress in closing out the backlog of grants identified in the IG's 1995 report. The closeout process includes determining that the project has been completed in accordance with the Statement of Work, that applicable administrative requirements are met, and that the financial aspects of the agreement are reconciled. In response to the backlog issue raised in 1995, an EPA task force reexamined closeout policies and actions and found that the Agency did not give the same level of attention to closeouts as it did to awarding grants. EPA developed a strategy to address this problem and issued a new closeout policy in December 1997. In addition, we have developed a strategy to avoid a future backlog.

Under this policy, each Grants Management Office must develop and implement a strategic closeout plan to close its grants within 180 days of completion.

In addition, the Agency now has in place a computerized closeout database which enables a grants specialist to electronically track and monitor completed projects and assists in notifying project officers and grant recipients when project milestones are approaching.

### **Integrated Grants Management System**

The current computerized database will be phased into a comprehensive Integrated Grants Management System (IGMS), a paperless programmatic and administrative system to fully automate and streamline the grant process from pre-award to closeout activities.

IGMS will strengthen EPA's communications internally among grants, program, and finance offices as well as with our grantees.

Significant successes were reported during the pilot phase of the electronic awards program. States received guidance weeks earlier than with the paper process, providing them

with more planning time. The IGMS also resulted in burden reduction, improved data accuracy, and time savings during work plan negotiations and in EPA grants application review and approval. Previous labor intensive aspects of the grant process such as photocopying, comment consolidation, and hand-carrying of documents for signature are eliminated under IGMS. This will allow Grants Management Officers to devote their time more productively to management and oversight such as through our new grantee compliance assistance initiative.

During FY 1999, the IGMS program was expanded beyond the pilot and by January 1, 2000, all grant awards will be made using the system. Electronic post-award and closeout management capability will be released as a prototype in the Fall of 2000. Over 3,000 Agency employees, as well as EPA grantees, will use the system once it is fully deployed.

#### **Issues and Challenges**

While EPA has made significant progress in strengthening grants management and oversight, we continue to be vigilant to opportunities for further improvement. We have explored several issues that may warrant attention.

*Assessment of Potential Vulnerabilities.* One of the areas we are examining is how to identify what type of grantee is most likely to be at risk for problems. Several possibilities have been suggested but none has proven to be generally true. Recipients of large grants might warrant more attention because of the amount of money awarded. However, States, cities, and other government entities, which receive the greatest share of the funds, generally have the most experience in grant administration. Small grant recipients, however, especially those who are first-time grantees, may be at highest risk. I have committed to working closely with the Inspector General to explore this issue jointly.

***Competition.*** Another question is whether competitive grants are more likely to yield better products than non-competitive grants. The competitive grant process opens EPA programs to a wide range of organizations which may result in more possibilities for scientific and technical innovation to solve public health and environmental problems. However, unique expertise or other public policy needs may justify a non-competitive award.

***Congressional Earmarks.*** At EPA, earmarks divert limited Agency resources, both dollars and staff, reducing EPA's ability to establish and fund higher priority environmental and public health programs. The magnitude of the problem can be seen in the Agency's FY 2000 appropriation, which has earmarked more than 320 projects totaling almost \$500 million. The inclusion of so many earmarked projects in our appropriation places a significant burden on the grants infrastructure of the Agency.

***Distinguishing Grants from Contracts.*** Over the past several years, EPA has made excellent progress in assuring that grants are used to support a public purpose rather than to purchase products and services primarily intended for the benefit of the Agency. We take very seriously the distinction between grants and contracts specified in the Federal Grant and Cooperative Agreement Act of 1977. We have implemented a policy that requires certification by a senior official that a proposed project is appropriate for funding as a grant. In our Project Officer training course, we strongly emphasize the distinction between assistance and acquisition.

***Small Grants.*** During FY 1999, EPA has conducted a pilot program to reduce administrative burdens on recipients of small grants – those under \$100,000. We are now evaluating the program. While the pilot did not relieve either EPA staff or the grantee of any



programmatic, financial, or legal accountability, our assessment will determine whether this paperwork reduction provides us with sufficient information to adequately monitor grantee performance and legal compliance. The small grants issue illustrates the challenge of balancing appropriate oversight and management of grants and grantee burden while avoiding a level of intrusion that may cross the line between grants and contracts.

### **Summary**

In closing, with much effort on the part of Headquarters and Regional offices, EPA has taken many positive steps to improve the manner in which we administer our grant programs and has made excellent progress in correcting weaknesses and strengthening management. Nonetheless, let me assure you that I remain committed to continued attention on managing EPA's resources effectively and responsibly in support of protecting public health and the environment.

Thank you for giving me the opportunity to discuss these important issues with you today. I would be happy to respond to any questions you may have.